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Michael Parenti: The Hidden Politics of Deficit Spending

Roundup: Media's Take

[Michael Parenti's recent books include Superpatriotism (City Lights), The Assassination of Julius Caesar (New Press), and most recently, The Culture Struggle (Seven Stories Press). For more information visit: www.michaelparenti.org.]

When government expends more than it collects in revenues, this is known as deficit spending. To meet its yearly deficits, it borrows from wealthy individuals and financial institutions in the United States and abroad.

The accumulation of these yearly deficits constitutes the national debt.

Conservative leaders who sing hymns to “fiscal responsibility” have been among the wildest deficit spenders. The Reagan administration in eight years (1981-88) tripled the national debt from $908 billion to $2.7 trillion. In the next four years, Bush Sr.’s administration brought the debt to $4.5 trillion.

The Clinton administration (1993-2000) slowed the rate of debt accumulation, and even produced a substantial budget surplus in its last three years, projecting a huge surplus that supposedly would retire most of the debt within a decade.

But the Bush Jr. administration reversed that trend with massive tax cuts and record deficit spending, increasing the national debt from $5.8 trillion to almost $9 trillion in less than six years. The debt should stand close to $10 trillion by the time Bush leaves the White House in January 2009.

In 1993, the federal government’s yearly payouts on the national debt came to $210 billion. By 2006, payments had climbed

to about $430 billion. Several things explain the national debt:

First, the billions of dollars in tax cuts to wealthy individuals and corporations represent lost revenue that is made up increasingly by borrowing. The government borrows furiously from the big moneyed interests it should be taxing.

Second, there is the budget busting impact of military spending, also the added operational costs of actual wars. Thus in 2003-2006, Bush Jr. was spending $10 billion a month on his war in Iraq in addition to the standard military budget that had climbed to over $420 billion for fiscal 2006.

Third, the growing national debt itself contributes to debt accumulation. As the debt increases, so does the interest that needs to be paid out. Every year, a higher portion of debt payment has been for interest alone, with less for retirement of the principle, the debt itself. By 1990, over 80 percent of all government borrowing went to pay for interest on money previously borrowed. Thus, the debt becomes its own self-feeding force. The interest paid on the federal debt each year is the second largest item in the discretionary budget (after military spending).

Fourth, it follows that huge deficits are a way of privatizing the federal budget itself. The bigger the debt, the larger the portion of each tax dollar that is channeled out of the public sector and into the private coffers of the very rich.

Fifth, the greater the debt, the more excuse do rightwing rulers have to defund human services. So we hear that with such a big deficit there just isn't enough money for such frills as hospital care, housing and education.

To borrow money, the government sells treasury bonds. These bonds are promissory notes that are repaid in full after a period of years. Who gets the hundreds of billions in yearly interest on these bonds? Mostly the individuals, investment firms, banks, and foreign investors with money enough to buy them. Who pays the interest (and the principle)? Mostly ordinary U.S. taxpayers.

Interest payments on the federal debt constitute an upward redistribution of wealth from those who work to those who live off personal wealth.

It is a hidden form of private taxation. As Karl Marx wrote almost 150 years ago: "The only part of the so-called national wealth that actually enters into collective possessions of modern peoples--is their national debt."

The debt serves the capitalist class well. Instead of capitalists investing their accumulated wealth in new production that would glut the market and remain unsold, they invest in U.S. Treasury notes. Lending money to the government becomes a relatively risk-free but profitable investment.

Predictions of large budget surpluses also overlook the additional but hidden deficits that exist. First, there is the "off-budget" deficit, an accounting gimmick that allows the government to borrow additional billions outside the regular budget. A nominally "private" corporation is set up by the government to borrow money in its own name.

For instance, monies to subsidize agricultural loans are raised by the Farm Credit System, a network of off-budget banks, instead of being provided by the Agriculture Department through the regular budget. Congress also created an off-budget agency known as the Financing Corporation to borrow the hundreds of billions needed for the savings-and-loan bailout, instead of using the Treasury Department. These sums are taken out of the general revenue, compliments of the U.S. taxpayer.

Another hidden deficit is in trade. As we consume more than we produce and import and borrow from abroad more than is exported, the U.S. debt to foreign creditors increases. Interest payments on these hundreds of billions borrowed from abroad have to be met by U.S. taxpayers.

Social Security also is used to disguise the real deficit. The Social Security payroll deduction--a regressive tax--soared during the Reagan years, and today produces a yearly surplus of over $120 billion. By 1991, 38 percent of U.S. taxpayers were paying more in Social Security tax than in federal income tax. Many Americans willingly accept these payroll deductions because they think the monies are being saved for their retirement. On paper, the Social Security surplus fund was about $1.8 trillion by early 2006.

But all those funds have been used to offset deficits in the regular budget, paying for White House limousines, wars, FBI agents, corporate subsidies, interest on the debt, and other items in the federal budget. Since the surpluses are not invested, but are expended on behalf of other purposes within the federal budget, some politicians maintain that the Trust Fund is "empty" or has already been spent. Bush himself says nothing about the existence (or nonexistence) of the $1.8 trillion.

U.S. political leaders have assiduously ignored the surest remedies for reducing the astronomical national debt:
(a) sharply reduce individual and corporate tax credits, deductions, and shelters,
(b) cut back on the huge subsidies to big business and agribusiness that do little to create jobs and much to fatten the coffers of the very rich,
(c) reintroduce a progressive income tax that would bring in hundreds of billions more in revenues, and
(d) greatly reduce the bloated military budget and redirect spending toward more productive and socially useful sectors of the economy.

To summarize: In almost every enterprise, government has provided business with opportunities for private gain at public expense. Government nurtures private capital accumulation through a process of subsidies, supports, and deficit spending and an increasingly inequitable tax system.

>From ranchers to resort owners, from brokers to bankers, from auto makers to missile makers, there prevails a welfare for the rich of such magnitude as to make us marvel at the corporate leaders' audacity in preaching the virtues of self-reliance whenever lesser forms of public assistance threaten to reach hands other than their own.

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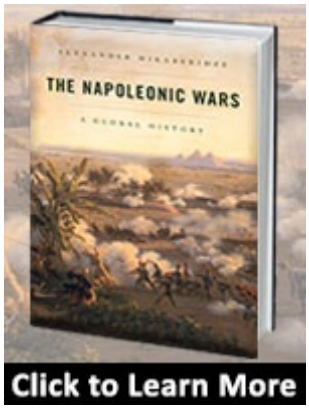

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